HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
October 22, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from__________ to__________

Commission File Number 001-32936
HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	95–3409686 (I.R.S. Employer Identification No.)
3505 West Sam Houston Parkway North Suite 400 Houston, Texas (Address of principal executive offices)	77043 (Zip Code)

(281) 618–0400
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [√] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [√] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [√]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [√]

As of October 17, 2014, 105,537,973 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 546,529	$ 478,200
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of $5,971 and $2,234, respectively	125,718	156,925
Unbilled revenue	71,366	25,732
Costs in excess of billing	11,111	1,508
Current deferred tax assets	26,342	51,573
Other current assets	48,006	29,709
Total current assets	829,072	743,647
Property and equipment	2,129,058	1,963,706
Less accumulated depreciation	(488,871)	(431,489)
Property and equipment, net	1,640,187	1,532,217
Other assets:		
Equity investments	152,588	157,919
Goodwill	62,839	63,230
Other assets, net	60,270	47,267
Total assets	$ 2,744,956	$ 2,544,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 117,280	$ 72,602
Accrued liabilities	85,969	96,482
Income tax payable	25,588	760
Current maturities of long-term debt	24,394	20,376
Total current liabilities	253,231	190,220
Long-term debt	529,281	545,776
Deferred tax liabilities	267,409	265,879
Other non-current liabilities	17,592	18,295
Total liabilities	1,067,513	1,020,170
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 105,531 and 105,640 shares issued, respectively	936,922	933,507
Retained earnings	773,319	586,232
Accumulated other comprehensive loss	(32,798)	(20,688)

Total controlling interest shareholders' equity		1,677,443		1,499,051
Noncontrolling interests		—		25,059
Total equity		1,677,443		1,524,110
Total liabilities and shareholders' equity	$	2,744,956	$	2,544,280

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Net revenues	$ 340,837	$ 220,117
Cost of sales	214,590	150,660
Gross profit	126,247	69,457
Gain on disposition of assets	—	15,812
Selling, general and administrative expenses	(19,916)	(22,610)
Income from operations	106,331	62,659
Equity in earnings of investments	508	857
Net interest expense	(3,856)	(6,585)
Loss on early extinguishment of long-term debt	—	(8,572)
Other income, net	598	2,366
Other income – oil and gas	1,837	1,681
Income before income taxes	105,418	52,406
Income tax provision	29,832	7,058
Net income from continuing operations	75,586	45,348
Income from discontinued operations, net of tax	—	44
Net income, including noncontrolling interests	75,586	45,392
Less net income applicable to noncontrolling interests	—	(799)
Net income applicable to Helix	$ 75,586	$ 44,593
Basic earnings per share of common stock:		
Continuing operations	$ 0.72	$ 0.42
Discontinued operations	—	—
Net income per common share	$ 0.72	$ 0.42
Diluted earnings per share of common stock:		
Continuing operations	$ 0.71	$ 0.42
Discontinued operations	—	—
Net income per common share	$ 0.71	$ 0.42
Weighted average common shares outstanding:		
Basic	104,997	105,029
Diluted	105,338	105,136

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net revenues	$ 899,996	$ 649,724
Cost of sales	588,765	460,203
Gross profit	311,231	189,521
Loss on commodity derivative contracts	—	(14,113)
Gain on disposition of assets, net	10,418	14,727
Selling, general and administrative expenses	(69,614)	(65,041)
Income from operations	252,035	125,094
Equity in earnings of investments	709	2,150
Net interest expense	(12,856)	(28,252)
Loss on early extinguishment of long-term debt	—	(12,100)
Other expense, net	(229)	(1,884)
Other income – oil and gas	15,709	5,781
Income before income taxes	255,368	90,789
Income tax provision	67,778	16,078
Net income from continuing operations	187,590	74,711
Income from discontinued operations, net of tax	—	1,073
Net income, including noncontrolling interests	187,590	75,784
Less net income applicable to noncontrolling interests	(503)	(2,365)
Net income applicable to Helix	$ 187,087	$ 73,419
Basic earnings per share of common stock:		
Continuing operations	$ 1.77	$ 0.68
Discontinued operations	—	0.01
Net income per common share	$ 1.77	$ 0.69
Diluted earnings per share of common stock:		
Continuing operations	$ 1.77	$ 0.68
Discontinued operations	—	0.01
Net income per common share	$ 1.77	$ 0.69
Weighted average common shares outstanding:		
Basic	105,038	105,036
Diluted	105,374	105,152

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Net income, including noncontrolling interests	$ 75,586	$ 45,392
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on hedges arising during the period	(9,209)	1,117
Reclassification adjustments for loss included in net income	812	396
Income taxes on unrealized (gain) loss on hedges	2,939	(529)
Unrealized gain (loss) on hedges, net of tax	(5,458)	984
Foreign currency translation gain (loss)	(15,706)	11,311
Other comprehensive income (loss), net of tax	(21,164)	12,295
Comprehensive income	54,422	57,687
Less comprehensive income applicable to noncontrolling interests	—	(799)
Comprehensive income applicable to Helix	$ 54,422	$ 56,888

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income, including noncontrolling interests	$ 187,590	$ 75,784
Other comprehensive loss, net of tax:		
Unrealized loss on hedges arising during the period	(9,283)	(16,050)
Reclassification adjustments for loss included in net income	2,080	900
Income taxes on unrealized loss on hedges	2,521	5,303
Unrealized loss on hedges, net of tax	(4,682)	(9,847)
Foreign currency translation gain (loss)	(7,428)	12
Other comprehensive loss, net of tax	(12,110)	(9,835)
Comprehensive income	175,480	65,949
Less comprehensive income applicable to noncontrolling interests	(503)	(2,365)
Comprehensive income applicable to Helix	$ 174,977	$ 63,584

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities:		
Net income, including noncontrolling interests	$ 187,590	$ 75,784
Adjustments to reconcile net income, including noncontrolling interests, to net cash provided by (used in) operating activities:		
Income from discontinued operations, net of tax	—	(1,073)
Depreciation and amortization	81,274	71,542
Amortization of deferred financing costs	3,653	4,091
Stock-based compensation expense	5,711	7,297
Amortization of debt discount	4,149	3,850
Deferred income taxes	24,728	(23,911)
Excess tax from stock-based compensation	(120)	(168)
Gain on disposition of assets, net	(10,418)	(14,727)
Loss on early extinguishment of debt	—	12,100
Unrealized loss and ineffectiveness on derivative contracts, net	69	140
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,496)	2,046
Other current assets	(19,388)	7,904
Income tax payable	25,440	(37,806)
Accounts payable and accrued liabilities	26,083	(46,313)
Oil and gas asset retirement costs	(956)	(9,886)
Other noncurrent, net	(9,758)	(561)
Net cash provided by operating activities	301,561	50,309
Net cash used in discontinued operations	—	(30,503)
Net cash provided by operating activities	301,561	19,806
Cash flows from investing activities:		
Capital expenditures	(204,528)	(275,935)
Distributions from equity investments, net	5,041	6,110
Proceeds from sale of assets	11,074	189,054
Acquisition of noncontrolling interests	(20,085)	—
Net cash used in investing activities	(208,498)	(80,771)
Net cash provided by discontinued operations	—	582,965
Net cash provided by (used in) investing activities	(208,498)	502,194
Cash flows from financing activities:		
Early extinguishment of Senior Unsecured Notes	—	(281,490)
Borrowings under revolving credit facility	—	47,617
Repayment of revolving credit facility	—	(147,617)
Repurchase of Convertible Senior Notes due 2025	—	(3,487)
Proceeds from term loans	—	300,000
Repayment of term loans	(11,250)	(370,931)

Repayment of MARAD borrowings		(5,376)		(5,120)
Deferred financing costs		(3,143)		(10,948)
Distributions to noncontrolling interests		(1,018)		(3,059)
Repurchases of common stock		(8,538)		(5,562)
Excess tax from stock-based compensation		120		168
Exercise of stock options, net and other		—		95
Proceeds from issuance of ESPP shares		3,223		2,711
Net cash used in financing activities		(25,982)		(477,623)
Effect of exchange rate changes on cash and cash equivalents		1,248		(1,296)
Net increase in cash and cash equivalents		68,329		43,081
Cash and cash equivalents:				
Balance, beginning of year		478,200		437,100
Balance, end of period	$	546,529	$	480,181

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 — Basis of Presentation and Recent Accounting Standards

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its wholly- and majority-owned subsidiaries (collectively, "Helix" or the "Company"). Unless the context indicates otherwise, the terms "we," "us" and "our" in this report refer collectively to Helix and its wholly- and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission (the “SEC”), and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and are consistent in all material respects with those applied in our 2013 Annual Report on Form 10-K (“2013 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. We have made all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that we believe are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income, and statements of cash flows, as applicable. The operating results for the three- and nine-month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Our balance sheet as of December 31, 2013 included herein has been derived from the audited balance sheet as of December 31, 2013 included in our 2013 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2013 Form 10-K.

Certain reclassifications were made to previously-reported amounts in the consolidated financial statements and notes thereto to make them consistent with the current presentation format.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU provides a single five-step approach to account for revenue arising from contracts with customers. The ASU requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2016, including interim periods. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. We are currently evaluating which transition approach to use and the potential impact the adoption of this new standard may have on our consolidated financial statements.

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Note 2 — Company Overview

Our Operations

We are an international offshore energy company that provides specialty services to the offshore energy industry, with a focus on well intervention and robotics operations. We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. We provide services primarily in deepwater in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions. Our "life of field" services are segregated into four business segments: Well Intervention, Robotics, Subsea Construction and Production Facilities (Note 11). Our Subsea Construction segment was significantly diminished following the sale of substantially all of our assets related to this reportable segment during 2013 and early 2014 (see Note 2 to our 2013 Form 10-K and Note 2 to our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2014). Our Production Facilities segment includes the Helix Producer I ("HP I") vessel (which we now own 100% after acquiring our minority partner's noncontrolling interests in the entity that owns the vessel for $20.1 million in February 2014) as well as our equity investments in Deepwater Gateway, L.L.C. ("Deepwater Gateway") and Independence Hub, LLC ("Independence Hub") (Note 5). The Production Facilities segment also includes the Helix Fast Response System ("HFRS"), which provides certain operators access to our Q4000 and HP I vessels in the event of a well control incident in the Gulf of Mexico.

Discontinued Operations

In February 2013, we sold Energy Resource Technology GOM, Inc. ("ERT"), a former wholly-owned U.S. subsidiary that conducted our oil and gas operations in the Gulf of Mexico, for $624 million plus additional consideration in the form of overriding royalty interests in ERT's Wang well and certain exploration prospects. As a result, we have presented the historical operating results of our former Oil and Gas segment as discontinued operations in the accompanying condensed consolidated financial statements. See Note 3 to our 2013 Form 10-K for additional information regarding our discontinued operations and Note 6 regarding the use of a portion of the sale proceeds to reduce our indebtedness under our former credit agreement.

Note 3 — Details of Certain Accounts

Other current assets and other assets, net consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Note receivable (1)	$ 10,000	$ —
Other receivables	840	785
Prepaid insurance	9,613	7,038
Other prepaids	15,969	12,999
Spare parts inventory	2,429	1,038
Value added tax receivable	9,120	7,589
Other	35	260
Total other current assets	$ 48,006	$ 29,709

	September 30, 2014	December 31, 2013
Note receivable (1)	$ 20,000	$ —

Deferred dry dock expenses, net		14,249		20,833
Deferred financing costs, net (Note 6)		24,077		24,297
Intangible assets with finite lives, net		654		622
Other		1,290		1,515
Total other assets, net	$	60,270	$	47,267

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(1) Relates to the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014. Interest on the note is payable quarterly at a rate of 6% per annum. A $10 million principal reduction is required to be paid on each December 31 of 2014, 2015 and 2016.

Accrued liabilities consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Accrued payroll and related benefits	$ 55,613	$ 50,527
Current asset retirement obligations	742	2,024
Unearned revenue	6,490	19,608
Billing in excess of cost	—	1,677
Accrued interest	1,362	4,187
Derivative liability (Note 15)	5,917	2,651
Taxes payable excluding income tax payable	7,918	4,811
Pipelay assets sale deposit	—	5,000
Other	7,927	5,997
Total accrued liabilities	$ 85,969	$ 96,482

Note 4 — Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of three months or less. The following table provides supplemental cash flow information (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Interest paid, net of interest capitalized	$ 11,671	$ 39,754
Income taxes paid	$ 53,390	$ 78,408

Our non-cash investing activities include accruals for property and equipment capital expenditures. These non-cash investing accruals totaled $21.3 million and $9.5 million as of September 30, 2014 and December 31, 2013, respectively. Additionally, $30 million of our non-cash investing activities relates to the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014 (Note 3).

Note 5 — Equity Investments

As of September 30, 2014, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. (“Enterprise”), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation's Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled $82.4 million and $85.8 million as of September 30, 2014 and December 31, 2013, respectively (including capitalized interest of $1.2 million and $1.3 million at September 30, 2014 and December 31, 2013, respectively).

Independence Hub, LLC. In December 2004 we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the "Independence Hub" platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. Our investment in Independence Hub was $70.2 million and $72.1 million as of September 30, 2014 and December 31, 2013, respectively (including capitalized interest of $4.0 million and $4.3 million at September 30, 2014 and December 31, 2013, respectively).

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We received the following distributions from these equity investments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Deepwater Gateway	$500	$1,600	$4,250	$5,100
Independence Hub	200	800	1,500	3,160
Total	$700	$2,400	$5,750	$8,260

Note 6 — Long-Term Debt

Scheduled maturities of our long-term debt outstanding as of September 30, 2014 are as follows (in thousands):

	Term Loan	MARAD Debt	2032 Notes (1)	Total
Less than one year	$18,750	$5,644	$—	$24,394
One to two years	30,000	5,926	—	35,926
Two to three years	30,000	6,222	—	36,222
Three to four years	30,000	6,532	—	36,532
Four to five years	172,500	6,858	—	179,358
Over five years	—	63,610	200,000	263,610
Total debt	281,250	94,792	200,000	576,042
Current maturities	(18,750)	(5,644)	—	(24,394)
Long-term debt, less current maturities	262,500	89,148	200,000	551,648
Unamortized debt discount (2)	—	—	(22,367)	(22,367)
Long-term debt	$262,500	$89,148	$177,633	$529,281

(1) Beginning in March 2018, the holders of our Convertible Senior Notes due 2032 may require us to repurchase these notes or we may at our option elect to repurchase these notes. The notes will mature in March 2032.

(2) Our Convertible Senior Notes due 2032 will increase to their face amount through accretion of non-cash interest charges through March 2018.

Included below is a summary of certain components of our indebtedness:

Credit Agreement

In June 2013, we entered into a Credit Agreement (the “Credit Agreement”) with a group of lenders pursuant to which we borrowed $300 million under the Credit Agreement’s term loan (the “Term Loan”) component and may borrow revolving loans (the “Revolving Loans”) and/or obtain letters of credit under a revolving credit facility up to an outstanding amount of $600 million (the “Revolving Credit Facility”). Subject to customary conditions, we may request an increase of up to $200 million in aggregate commitments with respect to the Revolving Credit Facility, additional term loans or a combination thereof. The $300 million we borrowed under the Term Loan was in connection with our early redemption of the remaining $275 million Senior Unsecured Notes outstanding in July 2013 (see “Senior Unsecured Notes” below).

The Term Loan and the Revolving Loans (together, the “Loans”) will bear interest, at our election, in relation to either the base rate established by Bank of America N.A. or to a LIBOR rate, provided that all Swing Line Loans (as defined in the Credit Agreement) will be base rate loans. The Term Loan currently bears interest at the one-month LIBOR rate plus 2.25%. In September 2013, we entered into various interest rate swap contracts to fix the one-month LIBOR rate on $148.1 million of the Term Loan. The fixed LIBOR rates were between 74 and 75 basis points.

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The Loans or portions thereof bearing interest at the base rate will bear interest at a per annum rate equal to the base rate plus a margin ranging from 1.00% to 2.00%. The Loans or portions thereof bearing interest at a LIBOR rate will bear interest at the LIBOR rate selected by us plus a margin ranging from 2.00% to 3.00%. A letter of credit fee is payable by us equal to our applicable margin for LIBOR rate Loans multiplied by the daily amount available to be drawn under outstanding letters of credit. Margins on the Loans will vary in relation to the consolidated coverage ratio, as provided by the Credit Agreement. We currently also pay a fixed commitment fee of 0.375% on the unused portion of our Revolving Credit Facility. At September 30, 2014, our availability under the Revolving Credit Facility totaled $583.2 million, net of $16.8 million of letters of credit issued.

The Term Loan is repayable in scheduled principal installments of 5% in each of the initial two loan years ($15 million per year), and 10% in each of the remaining three loan years ($30 million per year), payable quarterly, with a balloon payment of $180 million at maturity. These installment amounts are subject to adjustment for any prepayments on the Term Loan. We may elect to prepay amounts outstanding under the Term Loan without premium or penalty, but may not reborrow any amounts prepaid. We may prepay amounts outstanding under the Revolving Loans without premium or penalty, and may reborrow any available amounts paid up to the amount of the Revolving Credit Facility. The Loans mature on June 19, 2018. In certain circumstances, we will be required to prepay the Loans.

The Credit Agreement and the other documents entered into in connection with the Credit Agreement (together, the "Loan Documents") include terms and conditions, including covenants, which we consider customary for this type of transaction. The covenants include restrictions on our and our subsidiaries' ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, pay dividends and incur capital expenditures. In addition, the Credit Agreement obligates us to meet certain financial ratios, including the Consolidated Interest Coverage Ratio and the Consolidated Leverage Ratio (as defined in the Credit Agreement). We have designated five of our foreign subsidiaries, and may designate any newly established foreign subsidiaries, as subsidiaries that are not generally subject to the covenants in the Credit Agreement (the "Unrestricted Subsidiaries"), provided we meet certain liquidity requirements, in which case EBITDA of the Unrestricted Subsidiaries is not included in the calculations with respect to our financial covenants. Our obligations under the Credit Agreement are guaranteed by our wholly-owned domestic subsidiaries (except Cal Dive I – Title XI, Inc.) and Canyon Offshore Limited. Our obligations under the Credit Agreement, and of the guarantors under their guaranty, are secured by most of our assets and assets of the guarantors and Canyon Offshore Limited, plus pledges of up to two-thirds of the shares of certain foreign subsidiaries.

Convertible Senior Notes Due 2032

In March 2012, we completed a public offering and sale of $200.0 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2032 (the "2032 Notes"). The net proceeds from the issuance of the 2032 Notes were $195.0 million after deducting the underwriter's discounts and commissions and offering expenses. We used the net proceeds to repurchase and retire $142.2 million of aggregate principal amount of our 3.25% Convertible Senior Notes due 2025 in separate, privately negotiated transactions (see Note 7 to our 2013 Form 10-K for additional information). The remaining net proceeds were used for general corporate purposes, including the repayment of other indebtedness.

The 2032 Notes bear interest at a rate of 3.25% per annum, and are payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2012. The 2032 Notes will mature on March 15, 2032 unless earlier converted, redeemed or repurchased. The 2032 Notes are convertible in certain circumstances and during certain periods at an initial conversion rate of 39.9752 shares of common stock per $1,000 principal amount (which represents an initial conversion price of approximately $25.02 per share of common stock), subject to adjustment in certain circumstances as set forth in the Indenture governing the 2032 Notes.

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Prior to March 20, 2018, the 2032 Notes are not redeemable. On or after March 20, 2018, we, at our option, may redeem some or all of the 2032 Notes in cash, at any time upon at least 30 days' notice, at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the redemption date. In addition, the holders of the 2032 Notes may require us to purchase in cash some or all of their 2032 Notes at a repurchase price equal to 100% of the principal amount of the 2032 Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the applicable repurchase date, on March 15, 2018, March 15, 2022 and March 15, 2027, or, subject to specified exceptions, at any time prior to the 2032 Notes' maturity following a fundamental change (as defined in the Indenture governing the 2032 Notes).

In connection with the issuance of the 2032 Notes, we recorded a discount of $35.4 million as required under existing accounting rules. To arrive at this discount amount, we estimated the fair value of the liability component of the 2032 Notes as of the date of their issuance (March 12, 2012) using an income approach. To determine this estimated fair value, we used borrowing rates of similar market transactions involving comparable liabilities at the time of issuance and an expected life of 6.0 years. In selecting the expected life, we selected the earliest date upon which the holders could require us to repurchase all or a portion of the 2032 Notes (March 15, 2018). The effective interest rate for the 2032 Notes is 6.9% after considering the effect of the accretion of the related debt discount that represented the equity component of the 2032 Notes at their inception.

MARAD Debt

This U.S. government guaranteed financing (the "MARAD Debt") is pursuant to Title XI of the Merchant Marine Act of 1936 administered by the Maritime Administration, and was used to finance the construction of the Q4000. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures in February 2027. The MARAD Debt is collateralized by the Q4000, is guaranteed 50% by us, and initially bore interest at a floating rate that approximated AAA Commercial Paper yields plus 20 basis points. As provided for in the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date.

Nordea Credit Agreement

In September 2014, our wholly-owned subsidiary, Helix Q5000 Holdings S.à r.l. ("Q5000 Holdings"), entered into a Credit Agreement (the "Nordea Credit Agreement") with a syndicated bank lending group for a term loan (the "Nordea Term Loan") in an amount of up to $250 million. The Nordea Term Loan will be funded at or near the time of the delivery of the Q5000, which is currently estimated in early 2015. The parent company of Q5000 Holdings, Helix Vessel Finance S.à r.l., has guaranteed the Nordea Term Loan. The loan will be secured by the Q5000 and its charter earnings as well as by a pledge of the shares of Q5000 Holdings. This indebtedness is nonrecourse to Helix.

The Nordea Term Loan will bear interest at a LIBOR rate plus a margin of 2.5%, with an undrawn fee of 0.875%. The Nordea Term Loan matures five years after funding and is repayable in scheduled principal installments of $8.9 million, payable quarterly, with a balloon payment of $80.4 million at maturity. Installment amounts are subject to adjustment for any prepayments on this debt. Q5000 Holdings may elect to prepay amounts outstanding under the Nordea Term Loan without premium or penalty, but may not reborrow any amounts prepaid. In certain circumstances, Q5000 Holdings will be required to prepay the loan.

The Nordea Credit Agreement and the other related loan documents include terms and conditions, including covenants, that are considered customary for this type of transaction. The covenants include restrictions on Q5000 Holdings's ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, and pay dividends. In addition, the Nordea Credit Agreement obligates Q5000 Holdings to meet minimum financial requirements, including liquidity, consolidated debt service coverage and collateral maintenance.

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Former Credit Facility

Similar to our current Credit Agreement, our former credit facility contained both term loan and revolving loan components. This indebtedness was scheduled to mature on July 1, 2015. In February 2013, we repaid $318.4 million of borrowings outstanding under this former credit facility with the proceeds from the sale of ERT. We fully repaid the remaining indebtedness outstanding under this credit facility in June 2013. In connection with the repayments of this debt, we recorded charges totaling $3.5 million to accelerate a pro rata portion of the deferred financing costs associated with our former term loan debt. This charge is reflected as a component of "Loss on early extinguishment of long-term debt" in the accompanying condensed consolidated statement of operations for the nine-month period ended September 30, 2013.

Senior Unsecured Notes

In December 2007, we issued $550 million of 9.5% Senior Unsecured Notes due 2016 (the "Senior Unsecured Notes"). We had $275 million of the Senior Unsecured Notes outstanding at the beginning of 2013. We fully redeemed these notes in July 2013 (see Note 7 to our 2013 Form 10-K). Our results of operations for the three- and nine-month periods ended September 30, 2013 included a loss on early extinguishment of debt totaling $8.6 million in connection with the redemption of these notes.

Other

In accordance with our Credit Agreement, the 2032 Notes, the MARAD Debt agreements, and the Nordea Credit Agreement, we are required to comply with certain covenants, including certain financial ratios such as a consolidated interest coverage ratio and consolidated leverage ratio, as well as the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of September 30, 2014, we were in compliance with these covenants.

Unamortized deferred financing costs are included in "Other assets, net" in the accompanying condensed consolidated balance sheets and are amortized over the life of the respective debt agreements. The following table reflects the components of our deferred financing costs (in thousands):

	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Term Loan (matures June 2018) (1)	$ 3,638	$ (909)	$ 2,729	$ 3,638	$ (364)	$ 3,274
Revolving Credit Facility (matures June 2018) (1)	13,275	(3,319)	9,956	13,275	(1,327)	11,948
2032 Notes (mature March 2032)	3,759	(1,609)	2,150	3,759	(1,148)	2,611
MARAD Debt (matures February 2027)	12,200	(6,101)	6,099	12,200	(5,736)	6,464
Nordea Term Loan	3,143	—	3,143	—	—	—
Total deferred financing costs	$ 36,015	$ (11,938)	$ 24,077	$ 32,872	$ (8,575)	$ 24,297

(1)

Relates to amounts allocated to the existing Term Loan and Revolving Credit Facility, which became effective in June 2013.

The following table details the components of our net interest expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013 (1)
Interest expense	$8,952	$9,416	$24,474	$35,971
Interest income	(2,741)	(271)	(4,113)	(903)
Capitalized interest	(2,355)	(2,560)	(7,505)	(6,816)
Net interest expense	$3,856	$6,585	$12,856	$28,252

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(1) Interest expense amount includes $2.8 million for the three-month period ended March 31, 2013 that was allocated to ERT and is included in discontinued operations. Following the sale of ERT in February 2013, we ceased allocating interest expense to ERT, which then constituted a discontinued operation.

Note 7 — Income Taxes

The effective tax rates for the three- and nine-month periods ended September 30, 2014 were 28.3% and 26.5%, respectively. The effective tax rates for the three- and nine-month periods ended September 30, 2013 were 13.5% and 17.7%, respectively. The variance is primarily attributable to projected year-over-year increases in profitability in the United States and the 2013 tax benefit of a reduction in the U.K. statutory tax rate.

Income taxes have been provided based on the U.S. statutory rate of 35% and at the local statutory rate for each foreign jurisdiction adjusted for items that are allowed as deductions for federal and foreign income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and our effective rate from continuing operations are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Statutory rate	35.0	%	35.0	%	35.0	%	35.0	%
Foreign provision	(7.2	)	(12.3	)	(7.8	)	(11.8	)
Tax return to accrual adjustment	—		(4.0	)	—		(2.3	)
Change in U.K. tax rate	—		(5.6	)	—		(3.3	)
Other	0.5		0.4		(0.7	)	0.1	
Effective rate	28.3	%	13.5	%	26.5	%	17.7	%

In June 2014, the U.S. Internal Revenue Service ("IRS") and the Joint Committee on Taxation completed the examination procedures including all appeals and administrative reviews that the taxing authorities are required and expected to perform for the 2006 through 2010 audit period. In September 2014, we received an income tax refund in the amount of $35.2 million that was pending the conclusion of the examination. The refund was primarily attributable to the utilization of a net operating loss carryback from 2010.

Note 8 — Accumulated Other Comprehensive Income (Loss) ("OCI")

The components of Accumulated OCI are as follows (in thousands):

		September 30, 2014			December 31, 2013	
Cumulative foreign currency translation adjustment	$	(18,125	)	$	(10,697	)
Unrealized loss on hedges, net (1)		(14,673	)		(9,991	)
Accumulated other comprehensive loss	$	(32,798	)	$	(20,688	)

(1) Amounts relate to foreign currency hedges for the Grand Canyon, the Grand Canyon II and the Grand Canyon III charters as well as interest rate swap contracts for the Term Loan, and are net of deferred income taxes totaling $7.9 million and $5.4 million as of September 30, 2014 and December 31, 2013, respectively (Note 15).

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Note 9 — Earnings Per Share

We have shares of restricted stock issued and outstanding, which currently are unvested. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding unrestricted common stock and the shares are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are required to compute earnings per share ("EPS") amounts under the two class method in periods in which we have earnings from continuing operations. For periods in which we have a net loss, we do not use the two class method as holders of our restricted shares are not contractually obligated to share in such losses.

The presentation of basic EPS amounts on the face of the accompanying condensed consolidated statements of operations is computed by dividing the net income applicable to Helix common shareholders by the weighted average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except that the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computations of the numerator (income) and denominator (shares) to derive the basic and diluted EPS amounts presented on the face of the accompanying condensed consolidated statements of operations are as follows (in thousands):

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Income	Shares	Income	Shares
Basic:				
Continuing operations:				
Net income applicable to Helix	$ 75,586		$ 44,593	
Less: Income from discontinued operations, net of tax	—		(44)	
Net income from continuing operations	75,586		44,549	
Less: Undistributed income allocable to participating securities – continuing operations	(392)		(337)	
Net income applicable to common shareholders – continuing operations	$ 75,194	104,997	$ 44,212	105,029
Discontinued operations:				
Income from discontinued operations, net of tax	$—	104,997	$44	105,029
Diluted:				
Continuing operations:				
Net income applicable to common shareholders – continuing operations	$75,194	104,997	$44,212	105,029
Effect of dilutive securities:				
Share-based awards other than participating securities	—	341	—	107
Undistributed income reallocated to participating securities	1	—	—	—
Net income applicable to common shareholders – continuing operations	$75,195	105,338	$44,212	105,136

Discontinued operations:

Income from discontinued operations, net of tax	$—	105,338	$44	105,136

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	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Income	Shares	Income	Shares
Basic:				
Continuing operations:				
Net income applicable to Helix	$ 187,087		$ 73,419	
Less: Income from discontinued operations, net of tax	—		(1,073)	
Net income from continuing operations	187,087		72,346	
Less: Undistributed income allocable to participating securities – continuing operations	(980)		(525)	
Net income applicable to common shareholders – continuing operations	$ 186,107	105,038	$ 71,821	105,036
Discontinued operations:				
Income from discontinued operations, net of tax	$—		$1,073	
Less: Undistributed income allocable to participating securities – discontinued operations	—		(8)	
Net income applicable to common shareholders – discontinued operations	$—	105,038	$1,065	105,036
Diluted:				
Continuing operations:				
Net income applicable to common shareholders – continuing operations	$186,107	105,038	$71,821	105,036
Effect of dilutive securities:				
Share-based awards other than participating securities	—	336	—	116
Undistributed income reallocated to participating securities	3	—	—	—
Net income applicable to common shareholders – continuing operations	$186,110	105,374	$71,821	105,152
Discontinued operations:				
Income from discontinued operations, net of tax	$—	105,374	$1,073	105,152

No diluted shares were included for the 2032 Notes for the three- and nine-month periods ended September 30, 2014 and 2013 as the conversion trigger of $32.53 per share were not met in either period, and because we have the right to settle any such future conversions in cash at our sole discretion (Note 6).

Note 10 — Employee Benefit Plans

Long-Term Incentive Stock-Based Plans

As of September 30, 2014, there were 6.4 million shares available for issuance under our long-term incentive stock-based plans (the “LTI Stock Plans”). During the nine-month period ended September 30, 2014, the following grants of other share-based awards were made to executive officers and non-employee members of our Board of Directors under our LTI Stock Plans:

Grant Date
Fair Value

Date of Grant	Shares	Per Share	Vesting Period
January 2, 2014 (1)	73,609	$ 23.18	33% per year over three years
January 2, 2014 (2)	73,609	$ 26.79	100% on January 1, 2017
January 2, 2014 (3)	2,724	$ 23.18	100% on January 1, 2016
April 1, 2014 (3)	4,051	$ 22.98	100% on January 1, 2016
July 1, 2014 (3)	3,397	$ 26.31	100% on January 1, 2016

(1) Reflects the grant of restricted shares to our executive officers.

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(2) Reflects the grant of performance share units ("PSUs") to our executive officers. The estimated fair value of the PSUs on grant date was determined using a Monte Carlo simulation model. The PSUs provide for an award based on the performance of our common stock over a three-year period with the maximum award being 200% of the original awarded PSUs and the minimum amount being zero. The vested PSUs will be settled in an equivalent number of shares of our common stock unless the Compensation Committee of our Board of Directors elects to pay in cash.

(3) Reflects the grant of restricted shares to certain members of our Board of Directors who have made an election to take their quarterly fees in stock in lieu of cash.

Compensation cost is recognized over the respective vesting periods on a straight-line basis. For the three- and nine-month periods ended September 30, 2014, $1.7 million and $5.2 million, respectively, were recognized as stock-based compensation expense related to share-based awards as compared with $1.6 million and $6.7 million for the three- and nine-month periods ended September 30, 2013. A total of $1.3 million of the stock-based compensation expense for the nine-month period ended September 30, 2013 was included within our discontinued operations.

Long-Term Incentive Cash Plans

We have certain long-term incentive cash plans (the "LTI Cash Plans") that provide long-term cash-based compensation to eligible employees. Cash awards historically have been both fixed sum amounts payable (for non-executive management only) as well as cash awards indexed to our common stock with the payment amount at each vesting date fluctuating based on the performance of our common stock (for both executive and non-executive management). These are measured based on the performance of our stock price over the applicable award period compared to a base price determined by the Compensation Committee of our Board of Directors at the time of the award. Cash payments under the LTI Cash Plans are made each year on the anniversary date of the award. Cash awards granted since 2012 have a vesting period of three years while those granted prior to 2012 have a vesting period of five years. The LTI Cash Plans are considered liability plans and as such are re-measured to fair value each reporting period with corresponding changes in the liability amount being reflected in our results of operations.

The cash awards granted under the LTI Cash Plans to our executive officers and selected management employees totaled $8.9 million in 2014 and $8.4 million in 2013. Total compensation expense associated with the cash awards issued pursuant to the LTI Cash Plans was $5.4 million ($2.4 million related to our executive officers) for the nine-month period ended September 30, 2014. Overall, compensation expense recorded for the three-month period ended September 30, 2014 was immaterial reflecting the effect the decrease in our stock price at the end of September 2014 had on the value of our liability plan. For the three- and nine-month periods ended September 30, 2013, total compensation expense associated with the cash awards issued pursuant to the LTI Cash Plans was $3.3 million ($2.1 million related to our executive officers) and $7.5 million ($4.4 million related to our executive officers), respectively. The liability balance for the cash awards issued under the LTI Cash Plans was $10.5 million at September 30, 2014 and $14.8 million at December 31, 2013, including $6.7 million at September 30, 2014 and $11.1 million at December 31, 2013 associated with the cash awards issued to our executive officers under the LTI Cash Plans.

Employee Stock Purchase Plan

We also have an employee stock purchase plan (the "ESPP"). The ESPP has 1.5 million shares authorized for issuance, of which 1.2 million shares were available for issuance as of September 30, 2014. The total value of the ESPP awards is calculated using the component approach where each award is computed as the sum of 15% of a share of non-vested stock, a call option on 85% of a share of non-vested stock, and a put option on 15% of a share of non-vested stock. Share-based compensation expense with respect to the ESPP was $0.3 million and $0.7 million for the three-and nine-month periods ended September 30, 2014, respectively. For the three- and nine-month periods ended September 30, 2013, share-based compensation with respect to the ESPP was $0.2 million and $0.6 million, respectively.

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For more information regarding our employee benefit plans, including our stock-based compensation plans, our long-term incentive cash plans and our employee stock purchase plan, see Note 9 to our 2013 Form 10-K.

Note 11 — Business Segment Information

We have four business segments: Well Intervention, Robotics, Subsea Construction and Production Facilities. Our Well Intervention segment includes our vessels and related equipment that are used to perform well intervention services primarily in the Gulf of Mexico and North Sea regions. Our well intervention vessels include the Q4000, the Helix 534, the Seawell, the Well Enhancer and the Skandi Constructor, which is a chartered vessel. We are currently constructing two additional well intervention vessels, the Q5000 and the Q7000. We have also contracted to charter two newbuild vessels, which are expected to be delivered in 2016 and used in connection with our contracts to provide well intervention services offshore Brazil. Our Robotics segment currently operates four chartered vessels, and also includes remotely operated vehicles (“ROVs”), trenchers and ROVDrills designed to complement offshore construction and well intervention services. We have sold substantially all of the assets associated with our former Subsea Construction operations, including the sale in January 2014 of our Ingleside spoolbase. The Production Facilities segment includes the HP I as well as our equity investments in Deepwater Gateway and Independence Hub that are accounted for under the equity method. All material intercompany transactions between the segments have been eliminated. In February 2013, we sold ERT and as a result, the assets and liabilities included in the sale of ERT and the historical operating results of our former Oil and Gas segment are presented as discontinued operations in the accompanying consolidated financial statements. See Note 3 to our 2013 Form 10-K for additional information regarding our discontinued operations.

We evaluate our performance based on operating income and income before income taxes of each segment. Segment assets are comprised of all assets attributable to each reportable segment. Corporate and other includes all assets not directly identifiable with our business segments, most notably the majority of our cash and cash equivalents. Certain financial data by reportable segment is summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net revenues —				
Well Intervention	$205,139	$114,238	$546,057	$319,893
Robotics	131,707	90,370	339,301	242,940
Subsea Construction	—	4,120	358	69,305
Production Facilities	24,184	24,366	71,373	68,933
Intercompany elimination	(20,193)	(12,977)	(57,093)	(51,347)
Total	$340,837	$220,117	$899,996	$649,724
Income (loss) from operations —				
Well Intervention	$80,789	$33,544	$194,297	$93,906
Robotics	28,397	16,392	60,415	28,991
Subsea Construction (1)	41	15,088	10,871	29,031
Production Facilities	11,284	14,136	33,127	39,964
Corporate and other	(14,283)	(16,522)	(45,625)	(64,260)
Intercompany elimination	103	21	(1,050)	(2,538)
Total	$106,331	$		